

JACKSON COUNTY MEDICAL CARE FACILITY

JACKSON, MICHIGAN

FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2007, AND 2006

## Auditing Procedures Report V1.04



Issued under Public Act 2 of 1988, as amended.

Unit Name	JACKSON COUNTY MEDICAL CARE FAC	County	JACKSON	Type	OTHER	MuniCode	38-7-516
Opinion Date-Use Calendar	Feb 26, 2008	Audit Submitted-Use Calendar	Aug 14, 2008	Fiscal Year-Use Drop List	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 15,859,326.00
General Fund Expenditure:	\$ 15,375,425.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 5,556,835.00
Governmental Activities Long-Term Debt (see instructions):	\$ 14,565,964.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	JON	Last Name	NOWINSKI	Ten Digit License Number	1101019318		
CPA Street Address	110 1ST STREET	City	JACKSON	State	MI	Zip Code	49201
CPA Firm Name	LALLY GROUP PC	Unit's Street Address	524 LANSING AVE	City	JACKSON	LU Zip	49201

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# LALLY GROUP, PC

CERTIFIED PUBLIC ACCOUNTANTS

110 1st STREET  
PO BOX 1066  
JACKSON, MICHIGAN 49204-1066

(517) 787-0064  
FAX (517) 787-0178  
Website: [www.lallycpa.com](http://www.lallycpa.com)  
E-Mail: [info@lallycpa.com](mailto:info@lallycpa.com)

Member Of:  
American Institute of CPA's  
Michigan Association of CPA's

DAVID C. PALMER, CPA  
STEVEN M. PATCH, CPA  
JON A. NOWINSKI, CPA  
LANCE M. KNAPP, CPA  
NATHAN J. EADS, CPA

JANICE M. KIDD, CPA

February 26, 2008

Department of Human Services  
Board of Directors  
Jackson County Medical Care Facility  
524 Lansing Avenue  
Jackson, Michigan 49201-2804

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of JACKSON COUNTY MEDICAL CARE FACILITY (A component unit of the County of Jackson) as of December 31, 2007, and the related statements of activities and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Jackson County Medical Care Facility as of December 31, 2006, were audited by other auditors whose report dated February 2, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jackson County Medical Care Facility at December 31, 2007, and the results of its activities, change in net assets, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained in Schedules 1 and 2 on pages 15-16 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

*Lally Group, PC*

JACKSON COUNTY MEDICAL CARE FACILITY  
JACKSON, MICHIGAN

BALANCE SHEET  
DECEMBER 31, 2007, AND 2006

ASSETS		2007	2006
CURRENT ASSETS:			
Cash and cash equivalents	\$	1,467,110	\$ 1,735,323
Resident accounts receivable		2,449,012	1,792,765
Other receivables - County		123,000	123,000
Other current assets		78,528	99,512
Total current assets		<u>4,117,650</u>	<u>3,750,599</u>
ASSETS LIMITED AS TO USE		<u>672,869</u>	<u>422,437</u>
PROPERTY AND EQUIPMENT		<u>16,566,813</u>	<u>17,028,075</u>
OTHER - BOND ISSUE COSTS		<u>125,171</u>	<u>130,776</u>
Total assets		<u>\$ 21,482,503</u>	<u>\$ 21,331,888</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$	323,230	\$ 493,566
Current portion of long-term debt		410,000	410,000
Capital lease obligation		10,098	9,559
Funds held for residents		6,109	14,009
Estimated third-party payor settlements		175,000	175,000
Accrued liabilities and other:			
Accrued compensation and related liabilities		245,493	240,620
Accrued compensated absences		299,030	264,330
Accrued interest		110,764	114,204
Total current liabilities		<u>1,579,724</u>	<u>1,721,288</u>
LONG-TERM LIABILITIES:			
Post employment benefit obligation		189,980	0
Long-term debt		13,642,505	14,014,109
Capital lease obligation - capital lease		513,459	523,557
Total long-term liabilities		<u>14,345,944</u>	<u>14,537,666</u>
NET ASSETS:			
Invested in capital assets - net of related debt		2,514,309	2,603,966
Unrestricted		<u>3,042,526</u>	<u>2,468,968</u>
Total net assets		<u>5,556,835</u>	<u>5,072,934</u>
Total liabilities and net assets		<u>\$ 21,482,503</u>	<u>\$ 21,331,888</u>

(The accompanying notes are an integral part of these financial statements)

JACKSON COUNTY MEDICAL CARE FACILITY  
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2007, AND 2006

	2007	2006
OPERATING REVENUE:		
Net service revenue	\$ 14,171,923	\$ 12,869,575
Quality assurance supplement	1,582,602	2,207,832
Other operating revenue	78,470	139,342
Proportionate share reimbursement	0	325,283
Total operating revenue	<u>15,832,995</u>	<u>15,542,032</u>
OPERATING EXPENSES:		
Salaries	7,676,632	7,012,744
Other expenses	7,025,969	7,244,541
Total operating expenses	<u>14,702,601</u>	<u>14,257,285</u>
OPERATING INCOME	<u>1,130,394</u>	<u>1,284,747</u>
OTHER INCOME (EXPENSES):		
Interest income	16,772	2,805
Other income	9,559	9,048
Interest expense	(672,824)	(692,913)
Total other income (expenses)	<u>(646,493)</u>	<u>(681,060)</u>
INCREASE (DECREASE) IN NET ASSETS	483,901	603,687
NET ASSETS - Beginning of year	<u>5,072,934</u>	<u>4,469,247</u>
NET ASSETS - End of year	<u>\$ 5,556,835</u>	<u>\$ 5,072,934</u>

(The accompanying notes are an integral part of these financial statements)

# JACKSON COUNTY MEDICAL CARE FACILITY

## STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007, AND 2006

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from residents and third-party payors	\$ 13,515,677	\$ 12,418,366
Cash paid to employees and suppliers	(13,707,315)	(13,194,382)
Cash received from Proportionate Share Program	0	325,283
Cash operating receipts	78,470	139,342
Cash received from Quality Assurance Supplement Program	1,582,602	2,207,832
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>1,469,434</b>	<b>1,896,441</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Resident trust deposits	(7,900)	2,117
Interest received	16,772	2,805
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>8,872</b>	<b>4,922</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	(410,000)	(405,000)
Interest paid on long-term debt	(637,869)	(657,913)
Purchase of property and equipment	(184,952)	(81,398)
Payments for benefit obligation	(263,266)	0
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(1,496,087)</b>	<b>(1,144,311)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(17,781)</b>	<b>757,052</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>2,157,760</b>	<b>1,400,708</b>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 2,139,979</b>	<b>\$ 2,157,760</b>
<b>BALANCE SHEET CLASSIFICATIONS OF CASH AND CASH EQUIVALENTS:</b>		
Current assets	\$ 1,467,110	\$ 1,735,323
Assets limited as to use	672,869	422,437
	<b>\$ 2,139,979</b>	<b>\$ 2,157,760</b>

(The accompanying notes are an integral part of these financial statements)

JACKSON COUNTY MEDICAL CARE FACILITY

STATEMENT OF CASH FLOWS - CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2007, AND 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income	\$ 1,130,394	\$ 1,284,747
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	646,214	544,620
Amortization of benefit obligation	453,246	0
Provision for bad debt	3,485	138,771
Amortization of bond issue cost	5,605	5,605
Changes in operating assets and liabilities:		
(Increase) Decrease in:		
Resident accounts receivable	(659,731)	(589,980)
Other current assets	20,984	169,505
Increase (Decrease) in:		
Accounts payable	(170,336)	368,130
Other accrued liabilities	<u>39,573</u>	<u>(24,957)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 1,469,434</u>	<u>\$ 1,896,441</u>

(The accompanying notes are an integral part of these financial statements)



# JACKSON COUNTY MEDICAL CARE FACILITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### Nature of Business -

Jackson County Medical Care Facility (the "Facility") is a 194-bed, long-term care facility owned and operated by Jackson County (the "County"). It is governed by the Jackson County Department of Human Services Board of Directors. This board consists of three members; two of whom are appointed by the County Board of Commissioners and one is appointed by the State of Michigan Governor's office. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

#### Enterprise Fund Accounting -

The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

#### Basis for Presentation -

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basis Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive one-line look at the Facility's financial activities.

#### Use of Estimates -

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, upon settlement, actual results may differ from estimated amounts.

#### Cash and Cash Equivalents -

The Facility considers highly liquid debt instruments with maturities of ninety days or less to be cash equivalents.

JACKSON COUNTY MEDICAL CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Assets Limited as to Use -

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the board for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes.

Property and Equipment -

Property and equipment amounts are recorded at cost. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Costs of maintenance and repairs are charged to expense when incurred.

Compensated Absences -

Compensated absences are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Resident Funds -

The Facility maintains various bank accounts for deposits and disbursements for residents' personal expenses. These funds are assets of the residents.

Quality Assurance Program -

The Facility's Medicaid revenue has been partially funded by a program called Quality Assurance Assessment Program (QAAP). The current QAAP program was approved by the federal government during 2006 and was made effective retroactive to October 1, 2005. During the year, the Facility received Medicaid revenues related to QAAP totaling \$1,582,602 and \$2,207,832, for 2007 and 2006, respectively. For the year 2006, of the \$2,207,832, \$438,726 was related to the retroactive period of October 1, 2005, through December 31, 2005. During the year, the Facility was assessed a "provider tax" totaling \$781,822 and \$1,302,205, for 2007 and 2006, respectively. For the year 2006, of the \$1,302,205, \$258,954 was related to the retroactive period of October 1, 2005, through December 31, 2005. This provider tax is based on the number of non-Medicare days of service provided during the year end. The state bills for the tax on a monthly basis. Therefore, \$57,098 of provider tax was due and is included in accounts payable at December 31, 2007.

Unamortized Bond Costs -

Costs to issue bonds are being amortized over the life of the bonds.

# JACKSON COUNTY MEDICAL CARE FACILITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

#### Classification of Net Assets -

Net assets of the Facility are classified into two components. Net assets invested in capital assets net of related debt consist of capital assets, net of accumulated depreciation, and reduced by current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of investment in capital assets, net of related debt, or restricted.

#### Service Revenue -

The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors and make up a significant portion of revenue earned during each year, as follows:

	<u>Per Cent</u>
Medicaid	76%
Medicare	14

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Medicaid reimburses the Facility for resident routine service costs, on a per diem basis, prospectively determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

#### Operating Revenues and Expenses -

The Facility's statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Facility's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonexchange revenues, including taxes, interest, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Interest expense is reported as a nonoperating expense.

# JACKSON COUNTY MEDICAL CARE FACILITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

#### Deferred Revenue - Capital Lease -

The Facility currently has a deferred lease which is amortized into income over the life of the lease of 30 years.

### NOTE 2 - DEPOSITS:

The Facility's deposits and investments are composed of the following:

	2007		2006	
	Cash and Cash Equivalents	Assets Limited as to Use	Cash and Cash Equivalents	Assets Limited as to Use
Deposits:				
County Treasurer	\$1,324,156	\$672,869	\$1,548,048	\$422,437
Bank	142,954	0	187,275	0
Total	<u>\$1,467,110</u>	<u>\$672,869</u>	<u>\$1,735,323</u>	<u>\$422,437</u>

#### Cash - County Treasurer -

These funds were under the control of the County Treasurer, who deposited these funds with a bank.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorized local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the state of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Facility's deposits and investments are subject to several types of risks including custodial credit risk of bank deposits and investments, interest rate risk, credit risk, and concentration of credit risk. It is impractical to determine the amount of risk associated with the Facility's funds as these funds are only a portion of the total County deposits.

### NOTE 3 - RESIDENT ACCOUNTS RECEIVABLE:

The details of resident accounts receivable are set forth below:

Resident accounts receivable	\$2,526,456
Uncollectible accounts	(77,444)
Net resident accounts receivable	<u>\$2,449,012</u>

# JACKSON COUNTY MEDICAL CARE FACILITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3 - RESIDENT ACCOUNTS RECEIVABLE (Continued):

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

Medicare	29%
Medicaid	33
Other payors	38
Total	<u>100%</u>

### NOTE 4 - PROPERTY AND EQUIPMENT:

The cost of property and equipment and related depreciable lives for December 31, 2007, are summarized below:

	2006	Additions	Subtractions	2007
Building and improvements	\$18,202,694	\$109,284	\$	\$18,311,978
Movable equipment	1,111,793	75,669	80,983	1,106,479
Total	<u>19,314,487</u>	<u>\$ 184,953</u>	<u>80,983</u>	<u>19,418,457</u>
Less accumulated depreciation:				
Building and improvements	1,834,811	464,397	0	2,299,208
Movable equipment	451,601	100,835	0	552,436
Total	<u>2,286,412</u>	<u>\$ 565,232</u>	<u>0</u>	<u>2,851,644</u>
Net carrying amount	<u>\$17,028,075</u>		<u>\$ 0</u>	<u>\$16,566,813</u>

The cost of property and equipment and related depreciable lives for December 31, 2006, are summarized below:

	2005	Additions	Transfers	2006
Building and improvements	\$18,076,242	\$ 70,345	\$ 56,107	\$18,202,694
Movable equipment	1,156,847	11,053	(56,107)	1,111,793
Total	<u>19,233,089</u>	<u>\$ 81,398</u>	<u>0</u>	<u>19,314,487</u>
Less accumulated depreciation:				
Building and improvements	1,384,996	449,815	0	1,834,811
Movable equipment	356,796	94,805	0	451,601
Total	<u>1,741,792</u>	<u>\$544,620</u>	<u>0</u>	<u>2,286,412</u>
Net carrying amount	<u>\$17,491,297</u>		<u>\$ 0</u>	<u>\$17,028,075</u>

	Depreciable Life - Years
Building and improvements	20-40
Movable equipment	5-20

# JACKSON COUNTY MEDICAL CARE FACILITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5 - LONG-TERM DEBT:

Long-term liability activity for the year ended December 31, 2007, was as follows:

	<u>2006</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2007</u>	<u>Amounts Due Within One Year</u>
Jackson County Building Authority Refunding Bonds, Series 2005	\$13,920,000	\$ 0	\$ (85,000)	\$13,835,000	\$ 85,000
Jackson County Building Authority Bonds, Series 2000	1,400,000		(325,000)	1,075,000	325,000
Less: Deferred amount on refinancing	<u>(895,891)</u>	<u>0</u>	<u>38,396</u>	<u>(857,495)</u>	<u>0</u>
Total long-term debt	<u>\$14,424,109</u>	<u>\$ 0</u>	<u>\$ (371,604)</u>	<u>\$14,052,505</u>	<u>\$410,000</u>

Long-term liability activity for the year ended December 31, 2006, was as follows:

	<u>2005</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2006</u>	<u>Amounts Due Within One Year</u>
Jackson County Building Authority Refunding Bonds, Series 2005	\$14,000,000	\$ 0	\$ (80,000)	\$13,920,000	\$ 85,000
Jackson County Building Authority Bonds, Series 2000	1,725,000		(325,000)	1,400,000	325,000
Less: Deferred amount on refinancing	<u>(934,286)</u>	<u>0</u>	<u>38,395</u>	<u>(895,891)</u>	<u>0</u>
Total long-term debt	<u>\$14,790,714</u>	<u>\$ 0</u>	<u>\$ (366,605)</u>	<u>\$14,424,109</u>	<u>\$410,000</u>

The bonds payable are summarized as follows:

- The Facility entered into a capital lease arrangement with the County, in which the Facility will make lease payments to the County equal to the required principal and interest payments on the bonds acquired by the County.
- The County refunded in advance a portion of the Jackson County Building Authority, Series 2000 bonds payable in the amount of \$12,900,000 by issuing Jackson County Building Authority Refunding Bonds, Series 2005. After the refunding, the remaining debt totaled \$1,725,000. Interest payments are to be made semiannually beginning on November 1, 2005, with an interest rate of 5.5 per cent. Principal payments are due annually beginning May 1, 2006, and ending May 1, 2010.

JACKSON COUNTY MEDICAL CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT (Continued):

- The Building Authority Refunding Bonds, Series 2005 bonds issued for \$14,000,000 with interest payments made semiannually beginning November 1, 2005, with interest rates ranging from 3.150 per cent to 5.125 per cent. Principal payments are due annually, beginning on May 1, 2006, and ending on May 1, 2030.

The following is a schedule by years of bond principal and interest as of December 31, 2007:

<u>Years Ended December 31</u>	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 410,000	\$ 654,265
2009	465,000	632,059
2010	470,000	608,196
2011	520,000	586,342
2012-2016	2,805,000	2,618,188
2017-2021	3,300,000	1,997,356
2022-2026	3,635,000	1,248,264
2027-2030	3,305,000	344,109
Total payment	<u>\$14,910,000</u>	<u>\$8,688,779</u>

NOTE 6 - RELATED PARTY TRANSACTIONS:

Postretirement Benefits -

The Facility provides health and life insurance benefits for retired employees. Employees become eligible for benefits based on years of service from their hire date and actual eligibility factors vary based on collective bargaining agreements. Currently, 107 retirees are receiving benefits. Under an agreement with the County, the Facility is responsible for the costs of health care benefits for all employees who retired during or subsequent to 1989. Included in the Facility's annual expense is approximately \$221,000 and \$470,000 of costs paid for retirees' health and life insurance for the years ended December 31, 2007, and 2006, respectively.

At December 31, 2007, and 2006, the Facility's balance sheet reflects a receivable from the County of \$123,000 for a duplicate payment made by the Facility for health insurance costs applicable to 1997.

JACKSON COUNTY MEDICAL CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS

**NOTE 6 - RELATED PARTY TRANSACTIONS (Continued):**

Maintenance of Effort (M.O.E.) -

M.O.E. is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid patient day approved by the State during that month. Expenses relating to M.O.E. are not included in these financial statements as they were paid directly by the County.

**NOTE 7 - DEFINED BENEFIT MULTIPLE-EMPLOYER PENSION PLAN:**

Plan Description -

The Facility participates in the Jackson County Employees' Retirement System, which is a multiple-employer defined benefit pension plan that covers individuals who are employed for personal service in a membership portion, as defined in the retirement system by-laws of the County, who work 960 or more hours during the County's fiscal year, and elect to receive coverage. The Plan provides retirement benefits, as well as death and disability benefits, to plan members and their beneficiaries. The Jackson County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the plan. That report may be obtained by writing Jackson County Employees' Retirement System's board of trustees, County Tower Building, 120 West Michigan Avenue, Jackson, MI 49201.

Funding Policy-

The obligation to contribute to and maintain the system for covered employees was established in the Jackson County Employees' Retirement System, as amended January 1, 1996, and required an employee contribution of 2.5 per cent of payroll. The Facility's contribution requirement is actuarially determined and is equal to amortize the unfunded actuarial accrued liability over 10 years. The Facility has not been required to contribute to the plan years ended December 31, 2007, 2006, and 2005.

**NOTE 8 - RISK MANAGEMENT:**

The Facility is exposed to various risks of loss related to property loss, torts, errors, and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for medical benefits claims and workers' compensation claims and participates in the County's insurance plan with the Michigan Municipal Risk Management risk pool for claims relating to general (including malpractice) and auto liability, auto physical damage, and property loss claims.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.



JACKSON COUNTY MEDICAL CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - POSTEMPLOYMENT HEALTH CARE BENEFITS:

The Facility has a retiree health care pension plan covering substantially all of its employees. The benefits are based on years of service. The Facility's funding policy is to pay as the expenses are incurred. The Facility does not plan to fund the obligation. The estimated unfunded actuarial accrued liability of \$7,187,404 will be amortized for the active employees over 30 years. The amount amortized for 2007 was \$239,580.

The following tables set forth further information about the Facility's postemployment health care obligations as of and for the year ended December 31, 2007:

Obligations and Funded Status:

Benefit obligation	\$ (7,187,404)
Prepayment of health care obligation	<u>123,000</u>
Funded status	<u>\$ (7,064,404)</u>

Liability at December 31, 2007:

Actuarial balance at January 1, 2007	\$ 7,187,404
Unfunded future liability	(7,187,404)
Amortized unfunded liability	239,580
Accrued current year benefit liability	213,665
Prior years benefits paid in 2007	<u>(263,265)</u>
Liability at December 31, 2007	<u>\$ 189,980</u>

## SUPPLEMENTARY INFORMATION

# JACKSON COUNTY MEDICAL CARE FACILITY

## SCHEDULE 1 - NET SERVICE REVENUE FOR THE YEARS ENDED DECEMBER 31, 2007, AND 2006

	2007	2006
<b>SKILLED NURSING SERVICES:</b>		
Daily net room revenue:		
Medicaid	\$ 9,252,414	\$ 9,736,340
Medicare	1,728,356	1,426,700
Private pay	1,263,746	892,857
Total daily net room revenue	<u>12,244,516</u>	<u>12,055,897</u>
Ancillary revenue:		
Pharmacy	431,176	516,051
Therapy services	2,498,352	1,433,264
Other ancillary services	119,811	133,141
Total ancillary revenue	<u>3,049,339</u>	<u>2,082,456</u>
Net skilled nursing services revenue	<u>15,293,855</u>	<u>14,138,353</u>
<b>REVENUE DEDUCTIONS:</b>		
Provision for contractual discounts	1,118,447	1,130,007
Bad debt expense	3,485	138,771
Total revenue deductions	<u>1,121,932</u>	<u>1,268,778</u>
<b>NET SERVICE REVENUE</b>	<u><u>\$ 14,171,923</u></u>	<u><u>\$ 12,869,575</u></u>

JACKSON COUNTY MEDICAL CARE FACILITY

SCHEDULE 2 - OPERATING EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2007, AND 2006

	2007			2006
	SALARIES	OTHER	TOTAL	TOTAL
Fringe benefits	\$ 0	\$ 2,192,233	\$ 2,192,233	\$ 2,474,701
Administration	515,290	334,560	849,850	751,660
Plant operations	189,122	152,488	341,610	341,812
Utilities	0	278,818	278,818	230,963
Laundry	185,568	23,862	209,430	224,068
Housekeeping	414,367	100,576	514,943	486,450
Dietary	727,645	613,387	1,341,032	1,231,152
Medical records	0	22,200	22,200	23,400
Social services	152,282	7,573	159,855	141,598
Diversional therapy	183,774	21,110	204,884	185,559
Other ancillary services	0	50,190	50,190	41,946
Therapy services	189,809	858,747	1,048,556	680,572
Pharmacy	0	407,491	407,491	431,894
Nursing	4,993,819	484,004	5,477,823	5,030,240
Provider tax	0	781,822	781,822	1,302,205
Staff development	124,956	0	124,956	83,845
Dental	0	6,694	6,694	6,600
Depreciation and amortization	0	690,214	690,214	588,620
Total operating expenses	<u>\$ 7,676,632</u>	<u>\$ 7,025,969</u>	<u>\$ 14,702,601</u>	<u>\$ 14,257,285</u>



**LALLY GROUP, PC**  
CERTIFIED PUBLIC ACCOUNTANTS

110 1st STREET  
PO BOX 1066  
JACKSON, MICHIGAN 49204-1066

(517) 787-0064  
FAX (517) 787-0178  
Website: [www.lallycpa.com](http://www.lallycpa.com)  
E-Mail: [info@lallycpa.com](mailto:info@lallycpa.com)

Member Of:  
American Institute of CPA's  
Michigan Association of CPA's

DAVID C. PALMER, CPA  
STEVEN M. PATCH, CPA  
JON A. NOWINSKI, CPA  
LANCE M. KNAPP, CPA  
NATHAN J. EADS, CPA

SUPPLEMENT TO FORM 496  
QUESTION 11  
MUNICODE 38-7-516

As of the audit date, an employee of the local unit remained under disciplinary review pending an investigation of allegations of theft of maintenance items and supplies, along with improper use of credit cards.

Based upon inquiry of management, it was determined that the employee was not employed in the accounting department and that the estimated loss was not material to the financial statements.